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SUBJECT: AUSTRIA TO MISS KYOTO CLIMATE TARGETS, PROMPTING CALLS FOR URGENT ACTION

REF: (A) 07 VIENNA 568; (B) 07 VIENNA 2690; (C) VIENNA 110

¶1. SUMMARY: Austria will miss its Kyoto Protocol greenhouse-gas (GHG) emissions reduction goal by a wide margin again this year -- about a third -- according to a recent study. Austria stabilized emissions at 91.1 million tons CO2 equivalent (MtCO2e) in 2006, but committed to emit only 68.8 million tons annually during the "Kyoto period" (2008 -2012). High energy prices should stimulate investments in energy efficiency, which has been lagging, but have not yet shown an impact. Experts have declared an "urgent need" for domestic action including higher taxes and other regulatory measures to reduce energy and transportation use while dramatically scaling back fossil fuel consumption. This humbling episode is likely to make GOA policy-makers more cautious and realistic in future multilateral negotiations. END SUMMARY.

¶2. In late August, the Austrian Institute of Economic Research (WIFO) released a study on "Key Indicators of Climate Change" which is likely to shape public debate in Austria over the medium term. It points out that while Austria stabilized its greenhouse gas emissions in 2006, it has fallen far short of Kyoto goals which are themselves too modest to compensate for the rapid increase in GHG emissions elsewhere (particularly in India and China). WIFO experts argue that Austria and other industrialized countries must lead by example for the world to stabilize GHG emissions by 2020 and cut emissions by 2050 to half of the 1990 level.

#### Austria's Emissions: Transport Sector Is Main Culprit

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¶3. In Austria, GHG emissions rose by 15% between 1990 and 2006, but CO2 emissions (accounting for 85% of all GHG) increased by 25% over the period. Responsible for higher emissions were transportation (25% of the increase), industry (24%), building heat (18%), and energy (16%). The fastest emissions growth was in the transport sector, up 84% since 1990.

¶4. Per capita, Austria's GHG emissions (11.3 tons CO2e) were slightly above the average of the EU-27 (10.5 tons) but relative to GDP, Austria trails only Sweden and France in terms of lowest relative emissions and the energy intensity of Austrian industry declined 21% from 1990 to 2006. While industrial production is decoupling from CO2 emissions, the opposite trend is visible in the transport sector, where emissions have grown twice as fast as real GDP (43% since 1990).

#### Emissions Trading: No More Free Lunch

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¶5. Results for the first EU Emissions Trading System (ETS) period show that the GoA (along with most other Member States governments) over-allocated emission permits (by 0.3% overall) for 2005-2007, so that most industries did not have to reduce emissions. WIFO blames a "lack of experience" with the new ETS and concerns about Austria's

competitiveness as the main reasons for the oversupply of certificates. For 2008-2012, projected industry emissions should slightly surpass allocated permits -- as in many EU member states -- so Austrian companies will have to buy additional certificates whose market price is likely to rise further.

#### Calls to Raise Environmental Taxes and Restrict Transport

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¶6. The WIFO report endorses environmental taxation (energy taxes, transportation fees, pollution taxes, and taxes on resources) as key measures for Austria to tackle GHG emissions. Environmental taxes increased from Euro 2.4 billion in 1990 to 7.0 billion in 2006 (61% were for energy, 29% for transportation), they make up only 5.9% of total state revenue, a share which has fallen slightly in recent years. This is below the EU average of 6.5% (EU-15) and 6.7% (EU-25) and well behind leaders Denmark (12.2%) and the Netherlands (10.4%).

¶7. Before the background of the failed Kyoto targets, the WIFO report argues for an ecological tax reform, punishing energy use and resource consumption while lightening the burden on labor. Proposed measures are:

- raising mineral oil taxes to the level of neighboring countries,
- no preferential treatment for diesel fuel,
- taxation of fossil fuels according to their emissions intensity, and
- raising taxes on electricity consumption

¶8. In a press conference, WIFO chairman Karl Aiginger and the study's authors emphasized the need for action to reverse negative trends in Austria's climate change development. "Low energy" (increase of energy efficiency), "low carbon" (reduction of fossil

fuels in the energy mix) and "low distance" (avoiding unnecessary mobility) are their guiding principles. Most important short and medium term actions are raising energy and reducing labor taxes, removing of "false incentives" such as subsidies for commuters in private cars, and setting dynamic energy efficiency standards for buildings.

#### Business Says Emissions Targets Are Just Too Ambitious

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¶9. In contrast to the WIFO study, the Austria Economic Chamber (WKO), a lobby organization for businesses and "think tank" on economic policies, said that Austria is pursuing unrealistic goals for CO2 reductions, given the country's top position on most environmental indicators. WKO energy and environment expert Stephan Schwarzer presented an index, based on four international studies, ranking Austria number one among 19 EU countries (before even Sweden and Germany) on "environmental protection" reflecting the high share of renewable energies and organic agriculture, high water quality, and good sewage management. On climate change Austria trails primarily "because of its over-ambitious goals".

#### Austria to Owe At Least EUR 1 Billion Through 2012

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¶10. Austria's failure to fulfill its binding climate protection goals according to the EU burden sharing agreement requires the purchase of "emissions reduction units" as foreseen in the agreement and under the Kyoto Protocol. The GoA earmarked Euro 531 million of public funds for the purchase of these units until 2012. The price per ton CO2 equivalent was EUR 20 at that time in 2007, and had risen to EUR 25 in September 2008. A contact from the opposition Green Party estimates that Austria will have to pay Euro 1.6 billion for this sort of "hot air" unless it takes serious measures, particularly against transportation emissions. The Ministry of Environment, however, insists that the government has put enough resources in the budget to fulfill its Kyoto Protocol obligations.

¶11. The GOA reaction to its climate shortfalls has been muted. Climate change was not a key point of dispute in the coalition government and is non-existent in the current election campaign. The government's revised 2007 climate change plan (Ref A) has obviously fallen short of its mark, prompting Environment Minister Josef Proell to introduce a "Climate Change Act" to obligate all

Austrian stakeholders, particularly the powerful Austrian states, to contribute to the common goal. In Proell's view, the lack of progress is due to insufficient coordination and the need for local buy-in, for example in the building sector, where local construction codes and subsidies could better promote energy efficiency. Shortly before the current federal government collapsed in July, Proell introduced a bill to make "climate protection" a priority goal in the Austrian constitution (the initiative is in limbo due to upcoming elections).

COMMENT: Uncomfortable Role As "Climate Sinner"

¶12. Austria's environment is undoubtedly in good shape, but the political leadership's campaign to be seen as a pioneer in the fight against climate change has been exposed as posturing. The GOA now finds itself bound by ambitious GHG reduction goals that it set for political reasons -- and is reluctant to admit that those goals are currently unreachable for a transit country whose industries are already highly modern. Given its failure to meet the targets in the current Kyoto period, the GoA tried to dilute the EU Commission's proposed targets for Austria in the post-Kyoto period (ref C). The outcome of this humbling episode could be a more realistic GOA approach within the EU during negotiations on a Kyoto successor agreement. END COMMENT.

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